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SIPDIS

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SUBJECT: Sao Paulo journalists discuss corruption scandal in Brazil

1. Summary: At the end of July/early August, IO Sao Paulo held a series of individual meetings with prominent journalists to discuss the corruption scandal unfolding in Brazil. Various journalists commented that they believe President Lula da Silva (Lula) may not have been aware of the corruption but that they believed that Chief of Staff Jose Dirceu was. They mentioned several rumors regarding the source of the money that businessman Marcos Valerio de Sousa "loaned to members of the government and political party and confessed to have no idea of how the scandal would eventually end. End Summary.

2. Over a series of days, from July 14 - August 3, IO met separately with eight journalists to gather their opinions on the ongoing government corruption scandal in Brazil. The journalists are all prominent commentators and anchors from television, radio, print and Internet press. Although the journalists had different theories and points of view, the discussions painted an interesting picture of the general view of the media on the scandal.

#### Key Goernment Figures:

3. Most of the journalists seemed not to believe, or did not want to believe, that President Lula knew of corruption in the government and the Worker's Party (PT). All of them however, were certain that Dirceu was aware of and involved in a scheme to pay members of congress to support government policy. They also stated that all parties rely on unregistered funds to support their election campaigns. Many posited that the PT, always in the role of opposition until Lula's election, was not prepared to govern. They suggested that the party did not know how to lobby for votes and support and so resorted to purchasing it. Some referred to the communist roots of the PT and suggested that this same modus operandi of controlling policy through centralization of power led the PT to try to govern through the monthly payments (mensalao). Dirceu was described as an "apparatchik" and someone in whom Lula mistakenly put too much trust. When asked about Finance Minister Antonio Palocci, most journalists thought that he was not involved in the scheme. Others thought that the government did not want attention focused on him and brought up the fact that when Lula was running for office, Palocci replaced Celso Daniel, the mayor of St.Andre, as Lula's campaign coordinator. (Note: Celso Daniel was murdered in what was judged by police to be a robbery attempt. Rumors have persisted that Daniel was in fact murdered because he was investigating corruption in the PT election campaign).

#### Follow the Money:

4. This was the phrase used by several journalists to describe their methods of investigating the scandal. All of the journalists commented that the press is completely free to investigate and that their media outlets are aggressively pursuing the case. One journalist mentioned that the press receives all of the information that the Congressional Investigative Committee (CPI) receives at the same time that the CPI receives it and that they rely upon this information and follow up on it. One journalist commented that he believes this is why the government did not want a CPI. Many media outlets have sent additional staff from Sao Paulo to Brasilia to help report on the scandal. One journalist suggested that the question is not only to whom did Marcos Valerio de Sousa (Valerio) give the money, but also from where/whom, did Valerio get the money. Journalists had differing theories on the origin of the money. One believed that the PT had money from unregistered donations that they transferred to overseas accounts. He suspected that for some reason they could not access these accounts and so had to borrow from Valerio. Others believed that the PT gave lucrative contracts to Valerio and other publicity companies paying much more than they were worth, with the understanding that they would then be able to "borrow" this money and not repay it. Another suggested that the money might have come from state owned companies. A prominent anchorman whose name was among those whose telephones the businessman Daniel Dantas is accused of having illegally tapped in the Kroll scandal, says that he believes that Dantas actually provided the money to Valerio to give to the party.

Where will it all end?

15. The journalists confessed they had no idea where the scandal would end. At the time of speaking they doubted that it would end in the impeachment of the President. One journalist posited that unless something is found directly implicating the President, for example a check written to him, the President would not be impeached. Another journalist mentioned that there were rumors that Federal Police raided the Sao Paulo luxury department store, Daslu, because the store had a receipt for a purchase by Lula's wife that was made with Valerio's credit card. The journalist asked, if this is the case, was the raid to uncover this evidence or to cover it up? Some predicted the demise of the PT party. Many commented that Lula helped the PT to win rather than the other way around. Some predicted the PT party would divide between the more liberal elements and the more conservative. Others thought that Lula might begin to court the more leftist members of his party.

16. As for the upcoming elections, all of the journalists still believed Lula to be a strong contender although many pointed out that polls taken now cannot reliably predict how the electorate will feel next year. They also pointed out that the opposition would use the scandal during the election campaign to attack Lula in a way they are not doing now. Some suggested that it suits the opposition to have a "lame duck" president in office, rather than impeaching him. Another theme was the fear that a populist candidate in the mold of Severino Calvacanti might take advantage of the opportunity and run and win (a la Venezuela's Chavez). More than one journalist mentioned the Rio politician Anthony Garotinho as one such possible candidate. The journalists who suggested this possibility thought that it was remote, but definitely the worst-case scenario.

7. While many thought that this was a good opportunity to shine a light on corrupt practices in the Brazilian government, few had much hope that this scandal would result in concrete reforms to the political system.

18. Comment: These conversations took place several weeks ago and time is proving many of the speculations to have some basis in fact. Since the conversations, there have been revelations that the PT may have an offshore account and Dantas's name has also been mentioned in connection with the scandal. Duda Mendonca, who is the businessman who created an offshore account (for the PT?), is married to one of the owners of the department store, Daslu. End comment.

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